

# Bristol Water's response to substantive issues raised in customer's letter of 6 May 2015 to the CMA

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1. This is Bristol Water's response to the substantive issues raised by Mr Weeks' submission to the CMA dated 6 May 2015.
2. Bristol Water's bill levels over the last five year period (referred to as 'AMP 5') were allowed to increase by 35.2%<sup>1</sup> for metered water charge and 34.8% standing charge, in order for the company to step up investment. The case for the increases in investment and bills from 2010-2015 was independently reviewed and approved by the Competition Commission<sup>2</sup> following an in-depth and challenging process also involving the economic regulator Ofwat. As such, the movement experienced during that period has been entirely consistent with our regulated price control. With regard to metered bill charges rising to compensate for lower water use, this balancing measure is an accepted industry-wide practice to secure revenue streams.
3. We note Mr Week's outrage at the rates charged for his water supply. We hope that we can demonstrate, however, that the amounts charged by Bristol Water to its customers for water supply, metered and unmetered, are a fair and reasonable amount that reflects the level of investment carried out within the region to maintain appropriate levels of service and water quality. We recognise that customers need reassurance to that effect, which is why customer engagement has been such a significant part of our business planning process for the next five years.
4. Through that process, our customers have told us that their top priority is a sufficient supply of high quality water. Customers have also told us that investment in our network is important and that they would rather pay slightly higher bills in order to secure improvements in the service, both in the short and longer term. At the same time we recognise that bill levels remain a cause of concern for many. This is reflected in our proposals for the next five years.
5. Our Business Plan for the AMP 6 (2015-2020), which is the subject of the current redetermination by the CMA, proposes a bill reduction of 4.5% in real terms. This recognises the need to keep bills as low as possible, while investing what we see as the right amount in our infrastructure and assets to avoid further deterioration in the network and an increase in the risk of significant incidents occurring.
6. Our plan takes into account the fact that our day-to-day operations cannot be simply characterised as the provision of a commodity in a stable environment. Instead, water

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<sup>1</sup> Based upon the Competition Commission allowance of 17.1% + RPI over AMP5, which equates to an allowed 35.9% increase over the period.

<sup>2</sup> This body is now part of the Competition and Markets Authority, the CMA.

companies are engineering businesses with a complex network to maintain, repair, improve and expand whilst delivering against increasingly stringent regulatory performance targets for the environment, water quality and customer service. Our most recent large diameter burst in Kingswood last September demonstrated the multi-faceted nature of our business. This encompassed dealing with an emergency repair, loss of supply to 50,000 homes requiring alternative water supplies and vulnerable customer care, as well as addressing the welfare of customers made homeless by the event, and the subsequent repair and reinstatement of homes. When our Chief Executive returned to welcome the residents back to their homes he received heartfelt thanks for the way the company had handled the whole episode. We hope that this is reflective of our ethos as a company.

7. Mr Weeks expresses concern not just in relation to overall bill levels, but also at the possibility that current customers are being charged higher amounts to fund long-term investment that will benefit future customers. The issue of inter-generational cost allocation not only plays a part in our approach to long-term planning, but is also reflected in the duties that inform how the sector is regulated. As a result, price controls and investment plans are expected to look after the interests of both current and future customers, to ensure that they are appropriately balanced. Indeed, the purpose of the 'Regulated Capital Value' (RCV) mechanism is to smooth bills over a 30 year timescale, recognising that water assets such as pipelines, reservoirs and treatment plant have very long working lives, and thereby ensuring that current customers do not disproportionately bear those costs by paying high water prices today for the benefit of future generations, or vice versa.
8. In order to fund that investment, Bristol Water raises capital for investment from a mix of customer revenue and borrowing from banks and shareholders, which is closely aligned to regulatory assumptions. This approach offers stability against changing interest rates. Whilst we have benefitted from low interest rates for a small portion of our debt, much of our debt is historic and long-term.
9. We note Mr Week's concerns regarding the intentions of our major shareholder, Capstone Infrastructure, and the impact that this might have on our customers and the associated bill levels. As a regulated business, Bristol Water is not driven by shareholder returns. This is clear from our mission statement ("*to meet our customers' expectations by providing an outstanding water service in a sustainable and affordable way*") and the range of customer and service focused outcomes embedded throughout our business.
10. It is true that investors view water companies as a relatively stable source of returns in comparison to other equity investments. However, this does not mean that returns are in any way guaranteed. PwC prepared analysis for Ofwat that shows our return on regulated equity over AMP5 varied from c.4% to c.9% over the period and on average were in line with expectations and one of the lowest across the industry. The relative stability is an inevitable feature of the regulatory framework that applies to the sector, with allowed revenues set on a five-yearly basis. In terms of Bristol Water's recent RCV growth comparative to the rest of the industry, due to Bristol Water's level of investment being kept low historically in previous price controls, there was a bigger catch up in AMP 5 than for other companies. In addition, a 26% growth over five years is equivalent to an annual return of only 5.2%. As such, it is not indicative of Bristol Water's customers being treated unfavourably comparative to other water companies' customers.

11. Ultimately, the drivers behind the investment are largely beyond the company's control. Instead it is linked to regulatory drivers aimed at improving standards for water quality, the environment and resilience, as well as meeting the demands of a growing population. Our requests for a redetermination in 2010, and again in 2015, mean that our Business Plans are the most heavily scrutinised in the industry. We hope that this goes some way to assure Mr Weeks that the balance of interests between our customers, the company and our shareholders has had the utmost consideration.



Our Ref  
Your Ref

Email  
Direct Line

Mr P Weeks

By email:

01 June 2015

Dear Mr Weeks

## **Bristol Water plc price determination**

Thank you for your submission to the CMA. I also wanted to write to you personally to address your concerns, further to the correspondence you have already received from us by letter and email. Our reply to the CMA is attached, in which we respond to each of the points you raise. It will be published on the CMA website in due course. We will also share this letter with the CMA.

I note your disappointment and frustration at the rates charged for your water supply as a metered customer. A whole system of checks and regulation are in place to stop us, as a monopoly supplier, giving our customers 'a raw deal'. Despite the allowed increase, our bills remained significantly lower than other water companies in the south west. I think this is a useful perspective and would suggest that your umbrage lies with the water and regulatory sector as a whole, not just with Bristol Water.

Working as you do as a business consultant, I can understand your interest in Bristol Water beyond the bills you pay. This is a complex, highly regulated business and I would challenge your view that we simply deliver a commodity in a stable environment. If you had been a resident of Fisher Road in September last year then perhaps you would see us differently. You might have been affected by the large amount of work we have recently carried out in Henleaze near where you live, as part of the Bristol Resilience Scheme. Your bill would have certainly contributed to this £22 million project to provide improved security of supply to over 150,000 customers in central Bristol and to ensure we have an increased water supply available to meet the growth in residential and commercial developments in the North Bristol area.

We work hard to ensure that our customers experience a reliable and high quality water supply from us and I hope that, as one of our customers, you can vouch for this. We are proud of the customer satisfaction we achieve and continue to aim higher, as we know that the majority of our customers do not just care about their bill, they care about our service and what the future holds.

I would like to invite you into our Head Office to meet with me and some of the people who help deliver your water supply. If you take up the offer I firmly believe that you gain a better understanding of the business we operate and the service we provide, and hopefully as a result you will review the value you place on it.

**Bristol Water plc**, Registered Office: Bridgwater Road, Bristol, BS13 7AT

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Yours sincerely,

Luis Garcia  
Chief Executive Officer